



**2018
ANNUAL
REPORT**

Notice of Annual
General Meeting



IMPORTANT

Remember to always obtain an authorisation number by calling the Umvuzo Health call centre for all hospital and specialist services required. **0861 083 084**

Ensure you have the following on hand:

- Patient's membership number
- Patient's date of birth
- Details of treating doctor/hospital
- Caller's details

FIFTEENTH ANNUAL REPORT: 2018

NOTICE IS HEREBY GIVEN THAT THE 15th (FIFTEENTH) ANNUAL GENERAL MEETING OF MEMBERS OF UMVUZO HEALTH MEDICAL SCHEME WILL BE HELD ON FRIDAY, 14 JUNE 2019, AT 12:00 IN THE CULLINAN ROOM, SOUTHERN SUN, C/O STANZA BOPAPE AND STEVE BIKO STREET, ARCADIA, PRETORIA.

AGENDA	PAGE
1. Notice convening the Annual General Meeting	1
2. Opening by Chairperson	
2.1 Welcome	
2.2 Attendance register	
3. Minutes of the previous Annual General Meeting	2 – 7
4. Matters arising from the minutes	
5. Annual Report of the Board of Trustees	8 – 23
6. Abridged Annual Financial Statements	
6.1 Report of the Independent Auditors	24 – 31
6.2 Statement of Financial Position	32
6.3 Statement of Comprehensive Income	33 – 34
6.4 Changes in Funds and Reserves	35
6.5 Categories of Investment	35
6.6 Surplus from Operations per Benefit Option	36 – 37
The annual financial statements were approved by the Board of Trustees on 12 April 2019	
7. Appointment of Ngubane & Co. (Johannesburg) Inc as Auditors	
8. Remuneration of Trustee members – Annual increase to be considered by the AGM	38
9. Election of Board of Trustee members (Newly elected Board of Trustees to convene immediately following closure of the AGM)	
10. Closure	

JJ OOSTHUIZEN
PRINCIPAL OFFICER
10 May 2019

A full set of the Annual Financial Statements is available from **UMVUZO HEALTH** on request.

MINUTES OF THE 14th ANNUAL GENERAL MEETING (AGM) OF MEMBERS HELD ON FRIDAY, 15 JUNE 2018, AT 12:00, IN THE CULLINAN A ROOM, SOUTHERN SUN, C/O STANZA BOPAPE AND STEVE BIKO STREET, ARCADIA, PRETORIA.

1. ATTENDANCE REGISTER

A	BOARD OF TRUSTEES	CAPACITY	P = PRESENT A = ABSENT AP = APOLOGY
	Mr FS Nkosi	Chairperson	P
	Me SS Mabuza	Vice-Chairperson	P
	Mr MM Kiet	Member	P
	Mr SS Mokoena	Member	P
	Mr WM Mokoena	Member	P
	Mr MM Moyo	Member	P
	Mr MF Nqume	Member	P
	Mr BR Radebe	Member	P
	Mr SS Sibambo	Member	P
	Mr JL Tantsi	Member	P

B MEMBERS

Fifty-seven members were present according to the signed Attendance Register.

C IN ATTENDANCE

Mr JJ Oosthuizen	Principal Officer	P
Mr HB van Zyl	Head of Administration	P
Dr PC du Preez	Medical advisor	P
Mr ET Chapanduka	Ngubane & Co Inc : Auditors	P

2. OPENING AND WELCOME BY THE CHAIRPERSON AND CONSTITUTION OF THE MEETING

At the request of the Chairperson the Vice-Chairperson welcomed everybody in general and especially those members attending for the first time. A special word of welcome was directed to the Chairperson and Mr Radebe was requested to open the meeting with a prayer.

The Chairperson then took the podium and with reference to the notice convening the meeting and as a quorum was present in terms of Rule 26.1.3 of the Rules of the Scheme, he declared the meeting properly constituted.

He mentioned that 57 members were present, and he knew of a few members running late but that the Principal Officer assured him that they will be served in the lobby.

The Chairperson extended his condolences and that of the meeting to the family with the passing on of the former Chairperson of Umvuzo Health, Mr Solly Palume on 1 July 2017. He requested everybody to rise for a few seconds of silence.

He then particularly welcomed Mr Ruben Radebe being the newest Board of Trustee Member co-opted in terms of Rule 18.5 to fill the vacancy that occurred. A short summary of the process followed by the Board of Trustees through the Principal Officer, were provided. Hereafter everybody on the podium was requested and afforded the opportunity to introduce themselves.

From the outset the Chairperson thanked the Principal Officer and fellow Board of Trustee Members for always working in the best interest of the members. Even if mistakes were made corrective measures were implemented with haste.

The Chairperson highlighted the fact that Umvuzo Health already serves more than 29 000 members covering more than 62 000 lives and ended 2017 of with a solvency ratio of 34.07%, well in excess of the prescribed

25%. He thanked all staff members, brokers and especially those service providers walking the extra mile with Umvuzo Health for their much appreciated services and the meeting joined in with a round of applause.

The past year has again been very challenging with the changing political landscape and accelerated NHI implementation together with the recently published draft Health Amendment Bill and its possible effects on the industry. He further emphasised that access to health services is a right of all society. The Honourable Minister of Health has time and again given the assurance that the Government needs the support of the private sector and that no one should be felt threatened. Umvuzo Health will cooperate.

The Chairperson acknowledged that the medical schemes industry has many challenges but assured all that the Board of Trustees, together with all relevant parties, will ensure that Umvuzo Health remains relevant to the benefit of its members and their dependants.

After concluding his opening address, the Chairperson requested the Principal Officer to inform the Meeting of the proposed rules of order for conducting the AGM.

The Principal Officer read the following which was accepted by the meeting:

- A member will only have a chance to speak once per topic;
- The speaker must keep to the discussion;
- Only items appearing on the Agenda of the AGM shall be discussed;
- All cell phones must be switched off or put on silent;
- Avoid coming and leaving the venue as much as possible;
- No interjections while another speaker has the platform;
- If you wish to speak, raise your hand to be identified and introduce yourself before you speak;
- Problems of a personal nature must be discussed during office hours; and
- Discussions/questions of items not on the Agenda to be addressed after formal conclusion of this meeting.

3. MINUTES OF THE PREVIOUS ANNUAL GENERAL MEETING

The minutes of the 13th Annual General Meeting held on 23 June 2017 was approved by the meeting and signed by the Chairperson.

4. MATTERS ARISING FROM THE MINUTES

There were no matters arising from the minutes.

5. ANNUAL REPORT OF THE BOARD OF TRUSTEES

After a page by page discussion, questioning and explanation, the Annual Report of the Board of Trustees for 2017 was adopted.

6. ABRIDGED FINANCIAL STATEMENTS AND AUDITOR'S REPORT

The Chairperson welcomed the auditing team and afforded Mr Chapanduka the opportunity to elaborate on the Financial Statements for 2017.

Mr Chapanduka took to the podium and thanked the Board of Trustees and Management for the privilege of being allowed to again serve Umvuzo Health. He highlighted and discussed all the key aspects of the statements page by page and emphasised that the report is again unqualified and in short elaborated on the contraventions of Statute. After discussion and questioning, the Abridged Financial Statements and Auditor's report for 2017 were adopted.

The Chairperson informed the meeting that Ngubane and Company was the first black firm of auditors accredited by the Council for Medical Schemes, already have several prominent clients and was recently co-appointed as auditors of the Independent Development Corporation. This also attracted a round of applause from the meeting.

7. APPOINTMENT OF AUDITORS

The Chairperson read the contents of Rule 25.1 of the Rules of Umvuzo Health relating to the appointment of auditors to the meeting. He then requested the auditors to excuse themselves for the duration of the discussion of this item.

The Chairperson, also a member of the Audit Committee, mentioned that the Audit Committee was more than comfortable to recommend to the Board of Trustees and the latter now to the Annual General Meeting the re-appointment of the auditors.

On recommendation of the Audit Committee, the Board of Trustees thus recommended to the meeting the re-appointed of Ngubane & Co Inc as auditors of the Scheme for the following year.

The meeting appointed Mr. ET Chapanduka of Ngubane & Co (JHB) as auditor of Umvuzo Health Medical Scheme for the 2018 financial year.

8. REMUNERATION OF TRUSTEE MEMBERS

The Board of Trustees, as in the past, made no formal recommendation in this regard. The Chairperson however requested the Principal Officer to address the meeting by providing some background regarding Trustee remuneration.

The Principal Officer explained that the Board of Trustee Members currently only receive a meeting allowance for scheduled meetings together with traveling and accommodation expenses in terms of the approved policy of the Scheme in this regard. He gave the assurance that this remuneration is not nearly on par with other Schemes. He reminded members of the time outside the Boardroom that Trustees are involved with servicing the members. He further mentioned the competencies required to become a Board Member, training to undergo and most important of all the fiduciary duties they are responsible for.

A proposal was subsequently made from the floor and unanimously accepted by the meeting to increase the allowance payable to Trustees for attending scheduled meetings of the Board of Trustees with the latest available Consumer Price Index + 3%.

9. CLOSURE

The Chairperson thanked the following parties for their dedicated services:

- The Vice-Chairperson and the Board of Trustees for their commitment and support;
- The Principal Officer and staff of the Scheme;
- Call centre agents;
- Client liaison officers;
- Administration;
- Clinical staff;
- Medical advisor;
- Auditors; and
- All service providers with special reference to the Marketing specialists.

The Chairperson again thanked the members for accepting the invitation and making an effort to attend the Annual General Meeting. Their attendance demonstrates their care towards the Scheme and positively motivates and reminds the Board of Trustees thereof. The meeting was closed and adjourned at 13:30.

APPROVED AND SIGNED AT A MEETING HELD ON 14 JUNE 2019.

Mr FS Nkosi
CHAIRPERSON

ANNUAL REPORT OF THE BOARD OF TRUSTEES

The Board of Trustees hereby presents its report for the year ended 31 December 2018.

Registration number: 1597

1. DESCRIPTION OF THE MEDICAL SCHEME

1.1 Terms of registration

Umvuzo Health Medical Scheme is a not for profit closed scheme registered in terms of the Medical Schemes Act, 1998 (Act 131 of 1998), as amended. As required for registration, a guarantee has been issued by Standard Bank of South Africa Limited in favour of Umvuzo Health Medical Scheme and lodged with the Registrar of Medical Schemes.

1.2 Benefit options within Umvuzo Health Medical Scheme

The Medical Scheme offers five (5) benefit options, namely:

- Standard option;
- Ultra Affordable option;
- Supreme option;
- Extreme option; and
- Activator option with effect from 1 March 2017. No members registered as at 31 December 2018.

1.3 Savings plan

None.

1.4 Risk transfer arrangements

The Scheme had capitation agreements for the duration of the year with the following:

- Universal Care for primary care services; and
- Netcare 911 for ambulance services.

Refer to note 10 to the annual financial statements.

2. MANAGEMENT

2.1 Board of Trustees in office during the year under review

Name		Date elected	Date resigned
Mr FS Nkosi	Chairperson	: Member trustee	14/06/2013
Me SS Mabuza	Vice-chairperson	: Member trustee	14/06/2013
Mr MM Kiet	Member trustee		24/06/2016
Mr SS Mokoena	Member trustee		17/06/2011
Mr WM Mokoena	Member trustee		24/06/2016
Mr MM Moyo	Member trustee		24/06/2016
Mr MF Nqume	Member trustee		14/06/2013
Mr BR Radebe	Member trustee		22/01/2018
Mr SS Sibambo	Member trustee		24/06/2016
Mr LJ Tantsi	Member trustee		17/06/2011

2.1 Principal officer

JJ Oosthuizen

Physical address

Alenti Office Park, Building D
457 Witherite Road
The Willows
Pretoria
0040

Postal address

P O Box 1463
Faerie Glen
0043

2.3 Registered office address and postal address

Physical address

Alenti Office Park, Building D
457 Witherite Road
The Willows
Pretoria
0040

Postal address

P O Box 1463
Faerie Glen
0043

2.4 External auditors

Ngubane & Co. (Jhb) Inc

Physical address

Ngubane House
1 Superior Close, off 16th Road
Midrand
1685

Postal address

P O Box 8468
Halfway House
1685

2.5 Actuaries

Insight Actuaries & Consultants

Physical address

Ground floor Block J
Central Park
400 16th Road
Randjespark
Midrand
2191

Postal address

Private Bag X17
Halfway House
1685

2.6 Investment Manager

Old Mutual Wealth
Physical address
The Estuaries
2 Oxbow Crescent
Century City
7441

Postal address
P O Box 207
Cape Town
8000

3. INVESTMENT STRATEGY OF THE MEDICAL SCHEME

The Scheme's investment objectives are to maximise the return on its investments on a long term basis at minimal risk. The investment strategy takes into consideration both constraints imposed by legislation and those imposed by the Board of Trustees.

The mandate of Management is to ensure that:

- the Scheme remains liquid;
- investments are placed at minimum risk and the best possible rate of return;
- investments made are in compliance with the regulations of the Act; and
- a risk assessment is performed with feedback to the Board of Trustees with recommendations on the risks identified.

The Scheme invested in equities, unit trusts, money market instruments, bonds, call deposits and fixed deposits during 2018. This policy is reviewed annually, taking into consideration compliance with the Act, the risk and returns of the various investment instruments and the surplus of funds available.

4. MANAGEMENT OF INSURANCE RISK

The primary insurance activity carried out by the Scheme assumes the risk of loss from members and their dependants that are directly subject to the risk. This risk relates to the health of the Scheme members. As such the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under contract.

The Scheme manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisation and case management, service provider profiling, centralised management of risk transfer arrangements and the monitoring of emerging issues.

The Scheme uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, sensitivity analysis, scenario analysis and stress testing. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of claims are greater than expected.

Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated with established statistical techniques. There are no changes to assumptions used to measure insurance assets and liabilities that have a material effect on the financial statements and there are no terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the Scheme's cash flows.

5. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES

5.1 Operational statistics per benefit option: 2018

	Extreme	Supreme	Standard	Ultra	Total
Average number of members during the year	961	11,489	6,677	10,271	29,398
Number of members at 31 December	960	11,444	6,816	11,153	30,373
Average number of beneficiaries during the year	2,265	29,415	13,962	16,615	62,257
Number of beneficiaries at 31 December	2,276	29,451	14,240	17,632	63,599
Dependant ratio at 31 December	1.37	1.57	1.09	0.58	1.09
Risk contributions per average member per month	4,504.65	3,648.13	2,540.36	1,570.87	2,698.78
Risk contributions per average beneficiary per month	1,911.25	1,424.90	1,214.87	971.07	1,274.37
Relevant healthcare expenditure per average beneficiary per month	1,488.97	1,146.96	1,052.06	898.67	1,071.86
Non-healthcare expenditure per average beneficiary per month	194.71	164.10	149.20	105.55	146.33
Relevant healthcare expenditure as a % of risk contributions	77.91%	80.49%	86.60%	92.54%	84.11%
Non-health expenditure as a % of risk contributions	10.19%	11.53%	12.28%	10.87%	11.48%
Average age of beneficiaries at 31 December	27	26	30	34	29
Pensioner ratio at 31 December	0.21%	0.44%	0.65%	0.84%	0.63%
Average accumulated funds per member at 31 December					11,094.18
Return on investments as a % of investments					5.62%

Operational statistics per benefit option: 2017

	Extreme	Supreme	Standard	Ultra	Total
Average number of members during the year	734	10,746	6,594	9,592	27,666
Number of members at 31 December	791	10,952	6,509	9,657	27,909
Average number of beneficiaries during the year	1,712	27,054	13,933	15,797	58,496
Number of beneficiaries at 31 December	1,852	27,756	13,854	15,999	59,461
Dependant ratio at 31 December	1.34	1.53	1.13	0.66	1.13
Risk contributions per average member per month	4,155.08	3,311.05	2,288.15	1,423.91	2,435.36
Risk contributions per average beneficiary per month	1,781.44	1,315.17	1,082.90	864.61	1,151.82
Relevant healthcare expenditure per average beneficiary per month	1,542.76	1,037.73	959.38	902.70	997.39
Non-healthcare expenditure per average beneficiary per month	173.09	147.08	136.86	95.22	131.40
Relevant healthcare expenditure as a % of risk contributions	86.60%	78.91%	88.59%	104.41%	86.59%
Non-health expenditure as a % of risk contributions	9.72%	11.18%	12.64%	11.01%	11.41%
Average age of beneficiaries at 31 December	27	26	30	32	29
Pensioner ratio at 31 December	0.25%	0.34%	0.58%	0.83%	0.56%
Average accumulated funds per member at 31 December					9,866.20
Return on investments as a % of investments					5.70%

5.2 Operational statistics for the Scheme	2018	2017
	R	R
Average accumulated funds per member	11,094.18	9,866.20
Total amount paid to Accredited Managed Care Organisation for management services	22,262,289	19,402,972
Return on investments as a percentage of investments.	5.62%	5.70%

5.3 Results of operations

The results of the Medical Scheme are set out in the annual financial statements, and the trustees believe that no further clarification is required.

5.4 Solvency ratio

Total members' funds per statement of financial position	336,963,545	275,355,789
Gross contributions	952,064,024	808,520,388
Solvency ratio	<u>35.39%</u>	<u>34.06%</u>

5.5 Reserve accounts

Movements in the reserve accounts are set out in the statement of changes in funds and reserves. There were no unusual movements that the trustees believe need to be brought to the attention of the members of the Medical Scheme.

5.6 Outstanding claims

The basis of calculation of the outstanding claims provision is discussed in note 1.7 to the annual financial statements and this is consistent with the prior year. Movements in the outstanding claims are set out in note 6 to the annual financial statements. There have been no unusual movements that the trustees believe need to be brought to the attention of the members of the medical scheme.

6. ACTUARIAL SERVICES

The Scheme's actuaries were consulted in the determination of the contribution and benefit levels.

7. GUARANTEES RECEIVED BY THE SCHEME FROM A THIRD PARTY

In terms of section 33(3) of the Medical Schemes Act, Standard Bank of South Africa Limited has provided a guarantee of R2 500 000 (2017: R2 500 000) in favour of the Scheme.

8. EVENTS AFTER REPORTING DATE

No events that would have an impact on the annual financial statements took place subsequent to the reporting date.

9. INVESTMENTS IN AND LOANS TO PARTICIPATING EMPLOYERS OF MEMBERS OF THE MEDICAL SCHEME AND TO OTHER RELATED PARTIES

The medical scheme holds no investments in participating employers of Medical Scheme members.

10. RELATED PARTY TRANSACTIONS

Trustee remuneration and considerations are disclosed in note 16 to the annual financial statement

11. AUDIT COMMITTEE

An audit committee was established in accordance with the provisions of the Act. The committee is mandated by the Board of Trustees by means of a written terms of reference as to its membership, authority and duties. The committee consists of five members of which two are members of the Board of Trustees. The majority of the members, including the chairperson, are not officers of the Medical Scheme. The committee met twice during the year under review.

The principal officer of the Medical Scheme, the financial manager and the external auditors attend all audit committee meetings and have unrestricted access to the chairperson of the committee.

In accordance with the provisions of the Act, the primary responsibility of the committee is to assist the Board of Trustees in carrying out its duties relating to the Medical Scheme's accounting policies, internal control systems and financial reporting practices. The external auditors formally report to the committee on critical findings arising from audit activities.

The committee presently comprises: Alderman NM Malefo (Chairperson), Dr PC du Preez, Mr M Lombard, Mr SS Mokoena and Mr FS Nkosi.

12. INVESTMENTS

Management is mandated by the Board of Trustees by means of written terms of reference as to its authority and duties. The Board of Trustees continue to invest excess funds in line with the requirements of Annexure B of the Regulation to the Act.

13. BOARD OF TRUSTEES AND SUB-COMMITTEE MEETING ATTENDANCE

The following schedule sets out Board of Trustee and sub-committee meeting attendances. Trustee remuneration and considerations are disclosed in note 16 to the annual financial statements.

	#1	#2	#3	Board meetings attended	EXCO committee meetings attended	Audit committee meetings attended
Mr FS Nkosi : Chairperson	7	1	2	7	1	2
Me SS Mabuza : Vice-Chairperson	7	1		7	1	
Mr MM Kiet	7	1		7	1	
Mr SS Mokoena	7		2	7		2
Mr WM Mokoena	7			7		
Mr MM Moyo	7	1		7	1	
Mr MF Nqume	7			7		
Mr BR Radebe	7			7		
Mr SS Sibambo	7			7		
Mr LJ Tantsi	7	1		7	1	

- #1 Number of Board of Trustee meetings
- #2 Number of Executive committee meetings
- #3 Number of Audit committee meetings

14. NON-COMPLIANCE WITH THE ACT

The following areas of non-compliance with the Act were identified during the course of the financial year:

- **Contravention of section 26(7) of the Act**

In terms of section 26(7) of the Medical Schemes Act, contributions must be paid over to the Scheme within 3 days after becoming due.

Cause of non-compliance

There are instances where the Scheme received contributions after 3 days

of it becoming due. It should be noted that there are no contracts in place that is contrary to the legislation.

Corrective action taken

The Scheme's credit policy is applied:

- Employers and members are notified via sms and e-mail of the non-payment and requested to urgently address this matter.
- Where contributions owing to the Scheme have not been paid within 30 days of the due date, the Scheme suspends all benefit payments in respect of claims which arose during the period of default.
- Where outstanding contributions are not paid within 90 days of the notification, membership is cancelled.

• ***Contravention of section 59(2) of the Act***

In terms of section 59(2) of the Medical Schemes Act, accounts must be paid within 30 days after the day on which the claim was received.

Cause of non-compliance

The auditing of hospital accounts can cause some accounts to be paid after the 30 day period. Members who are suspended due to non-payment of their contributions, can also cause claims not to be paid until their contributions have been paid up.

Corrective action taken

- The Scheme will endeavour, together with the Managed care organisation and Hospitals, to speed up the auditing process.

• ***Contravention of section 33(2) of the Act***

In terms of section 33(2) of the Medical Schemes Act, each benefit option shall be self-supporting in terms of membership and financial performance and be financially sound.

Cause of non-compliance

During the financial period under review, the following option did not comply with section 33(2):

Benefit Option	Nr of members at year-end	Net healthcare results	Net results
Ultra Affordable option	11,153	(6,610,408)	(2,622,324)

Corrective action taken

The Scheme continues to monitor the Ultra Affordable option with a view to improving its financial outcome and will evaluate different strategies to address deficits in this option. The net healthcare deficit reflects higher disease burden in this benefit option. The Scheme's strategy on the sustainability of this benefit option has to balance short and long term financial considerations, with considerations of fairness to both healthy and sick members and with continued affordability of cover for members with different levels of income and different healthcare needs. The Scheme applied more contribution increase on this benefit option for the new financial year. It is expected that the higher contribution increase will address the pricing misalignment in the coming financial year whilst the remainder of the deficit will solely be attributable to the worse demographic profile and disease burden on this option.

• *Contravention of Regulation 35(8)(d)*

In terms of Regulation 35(8)(d), a medical scheme shall not invest any of its assets in the business of any administrator.

Cause of non-compliance

The Scheme has investments in certain groups and companies associated with medical scheme administration. The exposure to these entities had been obtained through the Scheme's investment in Collective Investment Scheme. The Scheme does not control the investing activities of the Investment manager.

Corrective action taken

The Scheme obtained exemption in terms of section 8(h) from section 35(8) of the Act from the Council for Medical Schemes. The exemption had been granted with the proviso that the Scheme does not make any direct investments in these entities.

FS Nkosi
Chairperson

SS Mabuza
Vice-Chairperson

JJ Oosthuizen
Principal Officer

12 April 2019

STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES

The Trustees are responsible for the preparation, integrity and fair presentation of the annual financial statements of Umvuzo Health Medical Scheme. The annual financial statements on pages 1 to 10 and 19 to 63 have been prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Medical Schemes Act, 131 of 1998, as amended.

The Trustees consider that, in preparing the annual financial statements, they have used the most appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Trustees are satisfied that the information contained in the annual financial statements fairly present the results of operations for the year and the financial position of the Scheme at the end of the year. The Trustees also prepared the other information included in the annual report and are responsible for both its accuracy and its consistency with the annual financial statements.

The Trustees have the responsibility for ensuring that accounting records are kept. The accounting records disclose with reasonable accuracy the financial position of the Scheme and enabled the Trustees to ensure that the annual financial statements comply with the relevant legislation.

Umvuzo Health Medical Scheme operated in a well-established controlled environment which is well documented and regularly reviewed. This incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurances that assets are safeguarded and the risk facing the business are being controlled.

The going concern basis has been adopted in preparing the annual financial statements. The Trustees have no reason to believe that the Scheme will not be a going concern in the foreseeable future, based on forecasts and available cash resources. These annual financial statements support the viability of the Scheme.

The annual financial statements have been audited by an independent firm, Ngubane & Co. (Jhb) Inc, which was given unrestricted access to all financial records and related data, including minutes of meetings of members, the Board of Trustees and Committees of the Board. The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the annual financial statements

The annual financial statements of Umvuzo Health Medical Scheme were approved by the Board of Trustees on 12 April 2019 and are signed on their behalf by:

FS Nkosi
Chairperson

SS Mabuza
Vice-Chairperson

JJ Oosthuizen
Principal Officer

12 April 2019

STATEMENT OF CORPORATE GOVERNANCE BY BOARD OF TRUSTEES

Umvuzo Health Medical Scheme is committed to the principles and practices of fairness, openness, integrity and accountability in all dealings with its stakeholders. The Scheme is committed to good Corporate Governance and applies good governance principles. The Trustees are proposed and elected by the members of the Scheme.

BOARD OF TRUSTEES

The Trustees and their committees meet regularly and monitor the performance of the outsourced services. They address a range of key issues and ensure that discussion of items of policy, strategy and performance is critical, informed and constructive.

All Trustees have access to the advice and services of the Principal Officer and, where appropriate, may seek independent professional advice at the expense of the Scheme.

INTERNAL CONTROL

The Principal Officer and the Trustees of the Scheme maintain internal controls and systems designed to provide reasonable assurance as to the integrity and reliability of the annual financial statements and to safeguard, verify and maintain accountability for its assets adequately. Such controls are based on established policies and procedures and are implemented by trained personnel with the appropriate segregation of duties.

No event or item has come to the attention of the Board of Trustees that indicates any material breakdown in the functioning of the key internal controls during the year under review.

FS Nkosi
Chairperson

SS Mabuza
Vice-Chairperson

JJ Oosthuizen
Principal Officer

12 April 2019

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF THE UMVUZO HEALTH MEDICAL SCHEME FOR THE YEAR ENDED 31 DECEMBER 2018

Opinion

We have audited the financial statements of the Umvuzo Health Medical Scheme (the Scheme), set out on pages 19 to 63, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in members funds and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Umvuzo Health Medical Scheme as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Scheme in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Part A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<p>Key audit matters incurred but not received provision (IBNR)</p>	<p>How our audit addressed the key matter</p>
<p>As disclosed in Note 6, the carrying amount of the Outstanding claims provision (IBNR) at year-end was R35 348 911 (2017 : R24 400 370). The determination of IBNR requires the Scheme’s Trustees to make assumptions in the valuation thereof, which is determined with reference to an estimate of the ultimate cost of settling all claims incurred but not reported at the Statement of Financial position date.</p> <p>The IBNR calculation using the “chain ladder method” is based on a number of factors which include:</p> <ul style="list-style-type: none"> • previous experience in claims patterns; • claims settlement patterns; • trends in claims frequency; • changes in the claims processing cycle; and • other factors such as expectations of believed to be reasonable to be taken into account in the valuation of the IBNR at year-end. 	<p>Our audit of the IBNR estimation and disclosure as approved by the Board of Trustees, we performed various procedures including the following:</p> <ul style="list-style-type: none"> • testing the design effectiveness and implementation of the Scheme’s controls relating to the preparation of the IBNR calculation; • testing the validity of the model used by management against the requirements of applicable sections of IFRS and the SAICA Guide on Accounting for Medical Schemes; • testing the integrity of the information used in the calculation of the IBNR by performing substantive procedures, on a sample basis, on the completeness and accuracy of the claims data used in calculating the IBNR; • evaluating the independence, objectivity, competence of management experts and placing reliance on their work; • performance of tests of detail on the current year IBNR including testing actual claims experienced subsequent to year-end and to as close as possible to audit completion date;

<p>The above-mentioned factors require significant judgement and assumptions to be made by Scheme Trustees and therefore accordingly, for the purposes of our audit, we identified the valuation of the IBNR as a key audit matter.</p>	<ul style="list-style-type: none"> • performance of a retrospective review of the IBNR raised in the 2017 financial year based on actual claims paid in 2018 that have service dates in the 2017 financial year to verify the assumptions applied to determine the IBNR are reasonable; and • assessing the presentation and disclosure in respect of the IBNR and considered whether the disclosures reflected the risks inherent in the accounting for the IBNR. <p>The assumptions applied in the IBNR are appropriate and we are satisfied that the movement of the IBNR in the Standard of Comprehensive Income and the related disclosure of the IBNR balance and assumptions are appropriate.</p>

Other information

The Board of Trustees is responsible for the other information. The other information comprises the information included in the Board of Trustees' report and does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider

whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Scheme's Trustees for the Financial Statements

The Board of Trustees is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act, No 131 of 1998, as amended and the Regulations thereto. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Trustees is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Scheme's trustees either intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Scheme's trustees.
- Conclude on the appropriateness of the Scheme's trustees' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Scheme's trustees regarding, among other matters, the planned scope and time of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Scheme's trustees with a statement that we have complied with the relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may be reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Scheme's trustees, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by the Council for Medical Schemes, we report the following material instances of non-compliance with the requirements of the Medical Schemes Act of South Africa as amended that have come to our attention during the course of our audit:

- ***Contravention of section 26(7) of the Act***
In terms of section 26(7) of the Medical Schemes Act, contributions must be paid over to the Scheme within 3 days after becoming due. A few employers did not adhere to the prescriptions of the Act.
- ***Contravention of section 59(2) of the Act***
In terms of section 59(2) of the Medical Schemes Act, accounts must be paid within 30 days after the day on which the claim was received. There were instances in which the Scheme did not pay to a member or a provider of service benefits owing to that member or provider of service within 30 days after the day on which the claim in respect of such benefit were received by the Scheme.
- ***Contravention of section 33(2) of the Act***
In terms of section 33(2) of the Medical Schemes Act, each benefit option shall be self-supporting in terms of membership and financial performance and be financially sound. As at 31 December 2018 the Ultra Affordable option had a net operating deficit of R2 622 324 for the year.
- ***Contravention of Regulation 35(8)(d)***
In terms of Regulation 35(8)(d), a medical scheme shall not invest any of its assets in the business of any administrator. The Scheme has investments in certain groups and companies associated with medical scheme administration. The exposure to these entities had been obtained through the Scheme's investment in Collective Investment Scheme. The Scheme does not control the investing activities of the Investment manager.

Auditor's Tenure

In terms of CMS circular 38 of 2018 Audit Tenure, we report that Ngubane & Co. (Jhb) Incorporated has been the auditor of Umvuzo Health Medical Scheme for 13 years.

The engagement partner, Edwin Chapanduka, has been responsible for Umvuzo Health Medical Scheme's audit for 5 years.

Ngubane & Co. (Jhb) Incorporated
Chartered Accountants (SA)
Director: Edwin T Chapanduka
Registered Auditor
Midrand

12 April 2019

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	2018 R	2017 R
ASSETS		
Non-current assets		
Available-for-sale investments	60,266,554	59,724,599
Current assets		
Trade and other receivables	43,740,942	34,241,052
Cash and cash equivalents	331,219,843	266,641,225
Inventory	881,787	947,626
TOTAL ASSETS	436,109,126	361,554,502
FUNDS AND LIABILITIES		
Members' funds and reserves		
Accumulated funds	336,963,545	275,355,789
Available-for-sale fair value reserve	6,249,792	7,550,151
Non-current liabilities		
Operating lease liability	196,284	83,913
Current liabilities		
Trade and other payables	57,350,594	54,164,279
Outstanding claims provision	35,348,911	24,400,370
TOTAL FUNDS AND LIABILITIES	436,109,126	361,554,502

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 R	2017 R
Risk contribution income	952,064,024	808,520,388
Relevant healthcare expenditure	(800,768,179)	(700,117,393)
Net claims incurred	(800,648,133)	(710,969,248)
Claims incurred	(804,264,939)	(712,408,603)
Third party claim recoveries	3,616,806	1,439,355
Accredited managed care services - No transfer of risk	(22,262,289)	(19,402,972)
Net (expense)/income on risk transfer arrangements	22,142,243	30,254,827
Other risk transfer arrangement expenses	(158,006,765)	(139,188,617)
Claim recoveries from other risk transfer arrangements	180,149,008	169,443,444
Gross healthcare result	151,295,845	108,402,995
Broker service fees	(20,639,467)	(15,867,539)
Administration expenses	(88,538,682)	(76,220,405)
Net impairment losses on healthcare receivables	(139,016)	(147,733)

Net healthcare result	41,978,680	16,167,318
Other income	19,629,076	16,986,772
Investment income	19,519,273	16,824,519
Unclaimed credits	109,803	162,253
Net surplus for the year	61,607,756	33,154,090
Other comprehensive income	(1,300,359)	4,518,096
Available-for-sale fair value reserve adjustment	(1,300,359)	4,518,096
Total comprehensive income for the year	60,307,397	37,672,186

STATEMENT OF CHANGES IN FUNDS AND RESERVES FOR THE YEAR ENDED 31 DECEMBER 2018

	Fair value revaluation reserve R	Accumulated Funds R	Total R
Opening balance - 01/01/2017	3,032,055	242,201,699	245,233,754
Net Surplus for the year		33,154,090	33,154,090
Market movement	4,518,096		4,518,096
Balance as at			
31 December 2017	7,550,151	275,355,789	282,905,940
Net Surplus for the year		61,607,756	61,607,756
Market movement	(1,300,359)		(1,300,359)
Balance as at			
31 December 2018	6,249,792	336,963,545	343,213,337

CATEGORIES OF INVESTMENT AS AT 31 DECEMBER 2018

	2018 R	2017 R
Call accounts	173,283,235	155,654,554
Current account	9,936,608	11,986,671
Fixed deposit	148,000,000	99,000,000
Cash and cash equivalent per statement of financial position	331,219,843	266,641,225

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Surplus from operations per benefit option

2018	Extreme R	Supreme R	Standard R	Ultra R	Total R
Risk contribution income	51,947,669	502,960,056	203,543,625	193,612,674	952,064,024
Relevant healthcare expenditure	(40,470,167)	(404,853,699)	(176,266,711)	(179,177,602)	(800,768,179)
Net claims incurred	(39,085,628)	(395,448,085)	(191,403,084)	(174,711,336)	(800,648,133)
Claims incurred	(39,108,365)	(396,881,395)	(192,190,090)	(176,085,089)	(804,264,939)
Third party claim recoveries	22,737	1,433,310	787,006	1,373,753	3,616,806
Accredited managed care services - No transfer of risk	(1,138,820)	(10,066,756)	(6,205,212)	(4,851,502)	(22,262,289)
Net income/(expense) on risk transfer arrangements	(245,719)	661,142	21,341,585	385,235	22,142,243
Capitation fees paid	(279,546)	(3,353,783)	(66,513,193)	(87,860,243)	(158,006,765)
Recoveries from risk transfer arrangements	33,827	4,014,925	87,854,778	88,245,478	180,149,008
Gross healthcare result	11,477,502	98,106,357	27,276,914	14,435,072	151,295,845
Broker service fees	(863,507)	(9,920,827)	(4,706,847)	(5,148,287)	(20,639,486)
Administration expenses	(4,426,401)	(48,002,345)	(20,254,204)	(15,855,732)	(88,538,682)
Net impairment losses on healthcare receivables	(2,297)	(59,352)	(35,906)	(41,461)	(139,016)
Net healthcare result	6,185,297	40,123,833	2,279,957	(6,610,408)	41,978,679
Other income	1,071,163	10,354,031	4,215,798	3,988,084	19,629,076
Investment income	1,065,034	10,311,717	4,173,063	3,969,459	19,519,273
Unclaimed credits	6,129	42,314	42,735	18,625	109,803
Net surplus/(deficit) for the year	7,256,460	50,477,864	6,495,755	(2,622,324)	61,607,755
Number of members at 31 December 2018	960	11,444	6,816	11,153	30,373

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR 31 DECEMBER 2018

Surplus from operations per benefit option

2017	Extreme R	Supreme R	Standard R	Ultra R	Total R
Risk contribution income	36,597,978	426,967,001	181,057,101	163,898,308	808,520,388
Relevant healthcare expenditure	(31,694,372)	(336,898,412)	(160,405,270)	(171,119,339)	(700,117,393)
Net claims incurred	(30,760,121)	(328,833,531)	(178,761,048)	(172,614,548)	(710,969,248)
Claims incurred	(30,760,121)	(329,498,497)	(179,398,087)	(179,751,898)	(712,408,603)
Third party claim recoveries	0	664,966	637,039	137,350	1,439,355
Accredited managed care services - No transfer of risk	(810,888)	(8,592,119)	(5,687,455)	(4,312,510)	(19,402,972)
Net income/(expense) on risk transfer arrangements	(123,363)	527,238	24,043,233	5,807,719	320,254,827
Capitation fees paid	(197,782)	(2,918,309)	(60,225,740)	(75,846,786)	(139,188,617)
Recoveries from risk transfer arrangements	74,419	3,445,547	84,268,973	81,654,505	169,443,444
Gross healthcare result	4,903,606	90,068,589	20,651,831	7,221,031	108,402,995
Broker services	(466,871)	(7,379,867)	(3,832,259)	(4,188,542)	(15,867,539)
Administration expenses	(3,077,339)	(40,299,361)	(19,031,220)	(13,812,485)	(76,220,405)
Net impairment losses on healthcare receivables	(11,743)	(68,511)	(18,680)	(48,799)	(147,733)
Net healthcare result	1,347,653	42,320,850	(2,230,328)	(25,270,857)	16,167,318
Other income	761,568	8,916,898	3,834,941	3,473,365	16,986,772
Investment income	761,568	8,884,766	3,767,622	3,410,563	16,824,519
Unclaimed credits	0	32,132	67,319	62,802	162,253
Net surplus/(deficit) for the year	2,109,221	51,237,748	1,604,613	(21,797,492)	33,154,090
Number of members at 31 December 2017	791	10,952	6,509	9,657	27,909

REMUNERATION OF TRUSTEE MEMBERS

In terms of Rule 18.16 an honorarium as from time to time determined at the Annual general meeting (AGM) may be paid to members of the Board of Trustees.

Board of Trustee members currently receive the following remuneration:

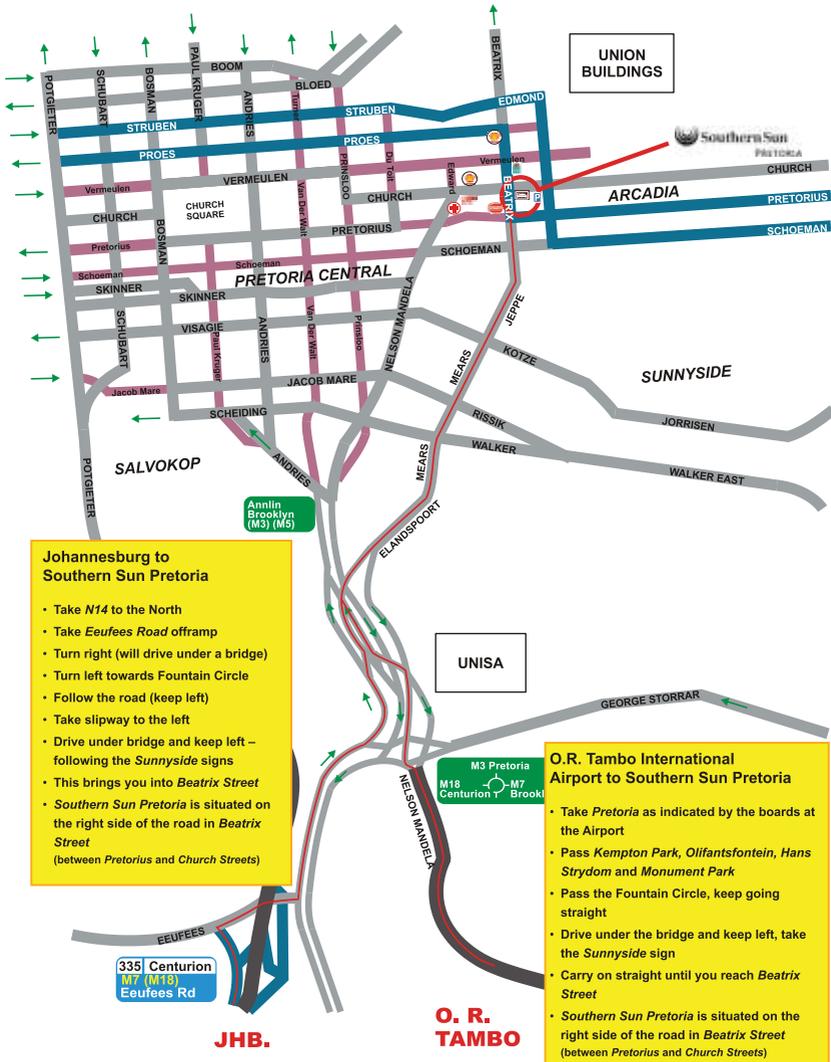
1. R4 192 meeting/workshop allowance;
2. R1 200 daily allowance;
3. Travelling reimbursement at the SARS prescribed rate (currently R3.61 per kilometre);
4. Accommodation with breakfast at an appropriate hotel facility;
5. R1 000 cell phone allowance per month for the Chairperson; and
6. R5 000 entertainment allowance per event for the Chairperson.

Annually at the AGM, the members approve an adjustment of the meeting allowance as in 1 above.

The Board of Trustees resolved to recommend that the meeting allowance of the Chairperson be adjusted to 30% more than that of the Board members.

For consideration by the meeting.

Southern Sun
PRETORIA



Johannesburg to Southern Sun Pretoria

- Take N14 to the North
- Take Euefees Road offramp
- Turn right (will drive under a bridge)
- Turn left towards Fountain Circle
- Follow the road (keep left)
- Take slipway to the left
- Drive under bridge and keep left – following the Sunnyside signs
- This brings you into Beatrix Street
- Southern Sun Pretoria is situated on the right side of the road in Beatrix Street (between Pretorius and Church Streets)

O.R. Tambo International Airport to Southern Sun Pretoria

- Take Pretoria as indicated by the boards at the Airport
- Pass Kempton Park, Oifantsfontein, Hans Strydom and Monument Park
- Pass the Fountain Circle, keep going straight
- Drive under the bridge and keep left, take the Sunnyside sign
- Carry on straight until you reach Beatrix Street
- Southern Sun Pretoria is situated on the right side of the road in Beatrix Street (between Pretorius and Church Streets)

335 Centurion
M7 (M19)
Euefees Rd

JHB.

O. R. TAMBO

South Africa's National Anthem

Nkosi sikelel' iAfrika
Maluphakanyisw' uphondo lwayo,
Yizwa imithandazo yethu,
Nkosi sikelela, thina lusapho lwayo.

Morena boloka setjhaba sa heso,
O fedise dintwa le matshwenyeho,
O se boloke, O se boloke setjhaba sa heso,
Setjhaba sa South Afrika – South Afrika.

Uit die blou van onse hemel,
Uit die diepte van ons see,
Oor ons ewige gebergtes,
Waar die kranse antwoord gee,

Sounds the call to come together,
And united we shall stand,
Let us live and strive for freedom,
In South Africa our land.



IMPORTANT CONTACT INFORMATION

Alenti Office Park, Building D, 457 Witherite Road, The Willows, Pretoria, 0043
PO Box 1463, Faerie Glen, 0043

Call Centre and Authorisations: **0861 083 084**

E: info@umvuzohealth.co.za

T: +27 (0) 12 845 0000

F: +27 (0) 86 670 0242

www.umvuzohealth.co.za